SURPLUS: Jurnal Riset Mahasiswa Ekonomi Manajemen dan Akuntansi
Vol. 5, No. 2, Desember 2025
Website: http://ejournal.iba.ac.id/index.php/surplus
ISSN 2828-0105

ENTREPRENEURIAL ORIENTATION AND COMPETITIVE ADVANTAGE AS THE ANTECEDENTS OF SMES PERFORMANCE

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DOI: 10.35449/surplus.v5i2.1139

ABSTRACT

Small and medium-sized enterprises (SMEs) are critical to economic growth, representing a significant portion of businesses in industrialized economies. SMEs are the backbone of Indonesia's economy, supporting approximately 50 million people. This study examines the impact of different Entrepreneurial Orientations (EO), including innovativeness, proactiveness, and risk-taking, on the financial performance of SMEs. It aims to identify which EO behaviors and dynamic capabilities are most important for SMEs' success and the role of competitive advantage in influencing performance. The study provides a comprehensive understanding of factors driving SME success by investigating the relationship between EO and performance, determining the relative impact of each EO dimension, and analyzing how competitive advantage influences performance. Targeting experienced adults, it focuses on the unique impact of EO on SME performance. The main results show that EO improves SMEs' performance and competitive advantage, significantly impacting performance. However, competitive advantage does not moderate the relationship between EO and performance; it functions as an independent variable. The study concludes that encouraging proactive behavior, innovation, and risk-taking, along with investing in competitive advantage, are critical strategies for improving SME performance. These insights offer valuable guidance for SMEs aiming to thrive in a fast-paced business environment.

Keywords: small and medium sized enterprise; entrepreneurial orientation; competitive advantage

INTRODUCTION

Small and Medium-sized Enterprises (SMEs) play a vital role in driving economic growth, making up a significant portion of businesses in industrialized economies. In Indonesia, SMEs

are the backbone of the economy, supporting approximately 50 million people (Syariati, 2022). SMEs account for 99.8% of all businesses in Indonesia and contribute 60% of the country's GDP. As of 2021, Indonesia has over 62 million SMEs, with 99.75% being microenterprises (Tirta & Sarli, 2021). The growth of these micro-enterprises into larger businesses is a significant opportunity for Indonesia's development. However, Indonesian SMEs face numerous challenges, including limited resources, intense competition, and a lack of management expertise (Syariati, 2022; Tirta & Sarli, 2021). Understanding the factors influencing SMEs' performance is critical to their continued survival and growth. From 2021 to 2023, Indonesian SMEs showed resilience amid the COVID-19 pandemic, contributing around 60% to GDP and employing 97% of the workforce (Indonesia Investments, 2022). However, their share of exports remains low at around 14%, highlighting issues with competitiveness and global market integration (Asian Development Bank, 2022). Government initiatives, including financial assistance, training programs, and digital transformation efforts, have been crucial in helping SMEs recover and adapt (OECD, 2022). These measures have been essential for boosting productivity and resilience.

Entrepreneurial Orientation (EO), encompassing innovativeness, proactiveness, and risk-taking, significantly impacts SME performance and internationalization (Dai et al., 2014). Recent studies suggest involving younger generations in EO research, noting that many young people see entrepreneurial potential in themselves despite doubting their traits (Geldhof et al., 2014a; Geldhof et al., 2014b). Competitive advantages, through unique products, superior service, cost efficiency, innovative processes, or strong brand identity, is crucial for SMEs to outperform competitors (Barney, 1991). In Indonesia's competitive landscape, having a competitive advantage can determine whether SMEs thrive or merely survive (Wijanarka & Sari, 2022). This advantage helps SMEs attract and retain customers, charge higher prices, increase profitability, and adapt to market demands, thus improving their market position and contributing to the national economy. This research aims to identify whether Entrepreneurial Orientation (EO) — innovativeness, proactiveness, and risk-taking— and Competitive Advantage (CA) are significant for SME financial performance. By examining these variables, the study seeks to understand the factors driving SME success and analyze whether competitive advantage significantly influences SME performance.

SMEs Performance

SMEs (Small and Medium-sized Enterprises) or SMMEs (Small, Medium, and Micro Enterprises) are internationally recognized, but their definitions vary by region due to geographical and legislative differences. These businesses typically operate on a smaller scale than larger corporations and share characteristics like flexibility, adaptability, and innovation (Robson & Bennett, 2000). Effective management practices are crucial for overcoming these obstacles. Collaborations with large corporations, which have more resources and expertise, can provide SMEs with strategic guidance and support to navigate modern business

complexities and enhance global competitiveness (Beck et al., 2005; Olaitan & Flowerday, 2017).

Small and medium-sized enterprises (SMEs) rely heavily on entrepreneurial orientation to drive innovation and take calculated risks, essential for enhancing overall performance. Empirical evidence underscores the link between strong entrepreneurial orientation and SME success, highlighting their proactive stance in experimenting with new ideas and continuous improvement despite resource limitations and expertise constraints. Central to SME management is the emphasis on consumer satisfaction, critical for sustaining revenue growth and competitive advantage (Khan & Tufail, 2021). Effectively managing performance through strategic deployment of organizational, human, and physical resources is crucial in navigating dynamic business environments and achieving sustainable competitive advantages (Mahmudova & Kovacs, 2018; Cicea, 2022). Despite challenges such as low survival rates and hesitancy to adopt innovative strategies, SMEs can bolster productivity and competitiveness by strategically allocating resources and embracing innovation in product, process, and management systems (Prasanna et al., 2019).

Entrepreneurial Orientation

Entrepreneurial orientation (EO) is critical for leaders who want to innovate and seize unique opportunities (Kusa et al., 2021). EO encompasses entrepreneurial organizations' procedures, techniques, and decision-making styles, with key elements including proactiveness, competitive aggressiveness, and autonomy, all of which have a positive impact on business performance. The primary dimensions of EO are innovativeness, risk-taking, and proactiveness (Wiklund and Shepherd, 2005). Research suggests a link between EO and business performance, emphasizing its role in providing superior customer value and identifying entrepreneurial opportunities. Rafiki et al. (2021) observe that EO dimensions can vary but typically include the three elements mentioned above, which have been extensively studied.

Competitive Advantage

Competitive advantage refers to characteristics or capabilities that enable a business to outperform competitors, such as unique resources, skills, or strategies (Porter, 1985). It is based on valuable, rare, inimitable, and non-substitutable (VRIN) resources (Barney, 1991), which for SMEs could include proprietary technologies and strong customer relationships. Effective management of unique resources can provide a long-term competitive advantage (Wernerfelt 1984). Another source is core competencies, which are difficult to replicate but applicable across markets (Prahalad & Hamel, 1990). Intangible assets, such as brand loyalty, also help to gain a competitive advantage. Entrepreneurial Orientation (EO) provides a competitive advantage for SMEs by encouraging innovation and anticipating market changes. High EO enables businesses to seize new opportunities and improve performance (Lumpkin & Dess, 1996; Wiklund & Shepherd, 2005).

Hypothesis Development

The Relationship Between Entrepreneurial Orientation and SMEs Performance Entrepreneurial orientation (EO) significantly impacts SMEs' performance by promoting innovation, proactivity, and risk-taking, which drive competitiveness and sustainability (Khan et al., 2021).

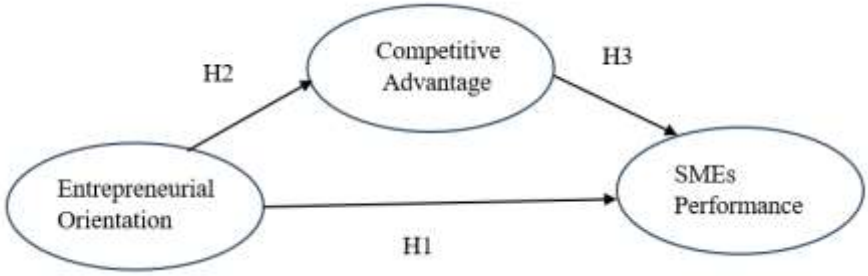
H1: Entrepreneurial Orientation significantly influences SMEs Performance

EO can foster competitive advantage by driving innovation, enabling firms to create unique offerings, attract new customers, and potentially command premium prices. Additionally, EO helps identify efficient operational methods, reducing costs and competitor pricing (Kiyabo & Isaga, 2020).

H2: Entrepreneurial Orientation can affect Competitive Advantage

Competitive advantage, through strategies like differentiation and cost leadership, positively affects SME performance by boosting profitability. There is a clear link between competitive advantage and higher performance for SMEs (Anwar, 2018).

H3: Competitive Advantage positively affects SMEs Performance



Gambar 1. Research Framework

RESEARCH METHOD

This quantitative research uses an online questionnaire to collect primary data, as defined by Taherdoost (2002) as a set of questions requiring respondents' opinions. The target population for this survey includes entrepreneurs across Indonesia with experience running or currently operating an SME, aiming to understand the unique challenges and opportunities they face in the entrepreneurial landscape. The study employs non-probability sampling, specifically purposive or convenience sampling, selecting participants based on specific characteristics or availability rather than random selection. This survey aims to collect data from 125 respondents to investigate the critical role of Entrepreneurial Orientation (EO) and Competitive Advantage (CA) in shaping the performance of Small and Medium Enterprises (SMEs). The number of respondents was decided based on reference to ensure adequate power, given a 5% significance level, 80% statistical power, and three predictors in the model, which suggests a minimum sample size of 124 respondents (Cohen, 1988). To achieve the target of 125 respondents, samples are sourced from various business networks, SME associations, social media

platforms, and organizations like Jakpreneur. Recruitment involves social media announcements and Google forms explaining the study's purpose and inviting participation, with the survey conducted online. The survey measurement was developed based on existing measures (Table 1).

Table 1. Research Measurements

Construct	Item - Description	Indicator	Authors
Entrepreneurial Orientation			Herlinawati et al., (2019)
Innovativeness (EOI)	The level of discovery of new ideas	EOI 1	
	Frequency of trying to do new ways of doing business	EOI 2	
	The level of technological renewal	EOI 3	
	New market discovery rate	EOI 4	
Proactiveness (EOP)	The level of activity in pursuing business opportunities	EOP 1	
	The level is responsive to changes in customer demand	EOP 2	
	The level of activity in finding business information	EOP 3	
	The level of activity in analyzing business information	EOP 4	
	The level of speed of finding a business partner	EOP 5	
Risk Taking (EORT)	Risk level of courage when entering new markets	EORT 1	
	Risk level of courage when launching new products	EORT 2	
	Level of strategic plan readiness to minimize the risk of failure	EORT 3	
	The level of courage is risky when trying new ways of marketing	EORT 4	
Competitive Advantage			Kiyabo & Isaga, (2020)
Differentiated Product (CADP)	The level of differentiation of the product compared to competitors' products	CADP 1	
	The level of pricing power of the product relative to competitors' products.	CADP 2	
	The level of differentiation of the product that leads to efficiency	CADP 3	
	Our Products are difficult for competitors to copy	CADP 4	Mahmood et al., (2013)
	We make effort for product changes to overcome customer dissatisfaction with existing products	CADP 5	
Market Responsiveness (CAMR)	The level of pricing strategies implemented in response to competitor actions or changing market conditions	CAMR 1	Kiyabo & Isaga, (2020)
	The level at which the company develops and launches new products in response to emerging market trends	CAMR 2	
	The level of marketing campaign adjustments made to meet new customer needs and respond to competitor activity	CAMR 3	
	Our ability to track changes in customer needs and wants is good	CAMR 4	
	We are quick to response to customer complaints	CAMR 5	
SMEs Performance (SMEsP)	Our company's profits increase every year	SMEsP1	Khanh et al. 2023
	Our company's sales volume is better every year	SMEsP2	
	The company's market share increases every year	SMEsP3	
	The company's ability to acquire new customers increases every year	SMEsP4	

A five-point Likert scale is employed, chosen for its efficiency in capturing nuanced responses while facilitating comparative analysis, aligning with best practices in survey research (Nemoto & Beglar, 2014). From January to June 2024, data were collected from individuals with entrepreneurial backgrounds, have the goal of providing a comprehensive understanding of the factors driving SME success in Indonesia's dynamic business environment. SmartPLS was used to facilitate and speed up data analysis, the assessment of research measurement model and the structural model.

FINDING AND DISCUSSION

Tabel 2 presents the respondent's profile. The majority of respondents are below 24 years (49%), hold undergraduate's degree (57%), from food and beverages sector (34%) and located in Jabodetabek area (31%).

Table 2. Profile of Respondents

Variables	Item	Frequency	%
Age	< = 24	61	49
	25 – 35	41	33
	36 – 45	18	15
	>45	4	3
Education	SMA/SMK	44	36
	S1	69	57
	S2	9	7
Industry Sector	Food & beverages	42	34
	Fashion	25	20
	Automotive	25	20
	Cosmetics	19	15
	Skin Care	10	8
	Others	4	3
Location	Jabodetabek	39	31
	Bandung	31	25
	Surabaya	23	18
	Tanggerang	18	15
	Medan	13	10
	Others	1	1

Table 3 presents the results of lower order measurement assessment, validity and reliability. The outer loadings and AVE > 0.5 depict that the convergent validity of the measures are good. Discriminant validity was held, and it was assessed through cross loadings and all items in the construct show greater loadings compared to item loadings of different constructs (Table 4).

Table 3. Lower Order Validity and Reliability Assessment

Construct	Dimension	Item	Outer loadings	Cronbach's Alpha	Rho-A	Composite Reliability	AVE	FIV
Entrepreneurial Orientation (EO)	EOI	EOI1	0.813	0.794	0.800	0.866	0.618	1,605
		EOI2	0.747					1,470
		EOI3	0.779					1,594
		EOI4	0.805					1,731
	EOP	EOP1	0.733	0.795	0.801	0.859	0.550	1,476
		EOP2	0.781					1,643

		EOP3	0.796					1,830
		EOP4	0.731					1,598
		EOP5	0.661					1,374
	EORT	EORT1	0.742	0.747	0.748	0.840	0.567	1,334
		EORT2	0.742					1,312
		EORT3	0.781					1,731
		EORT4	0.747					1,650
Competitive Advantage (CA)	CADP	CADP1	0.794	0.834	0.844	0.883	0.604	1,878
		CADP2	0.739					1,707
		CADP3	0.856					2,258
		CADP4	0.666					1,491
		CADP5	0.816					2,019
	CAMR	CAMR1	0.754	0.848	0.852	0.891	0.622	1,634
		CAMR2	0.755					1,689
		CAMR3	0.789					1,936
		CAMR4	0.842					2,159
		CAMR5	0.798					1,795
SMEs Performance (SMEsP)	SMEsP	SMESP1	0.869	0.854	0.853	0.901	0.695	2,374
		SMESP2	0.823					1,869
		SMESP3	0.825					1,911
		SMESP4	0.817					1,813

The values of Cronbach's alpha, Rho-A and composite reliability are above 0.7 prove that reliability of all constructs are good (Table 3). Furthermore, VIF values which are less than 3 show that there is no issue with multicollinearity (Table 3).

Table 4. Lower Order Discriminant Validity Assessment through Cross Loadings

Item	CA Differentiated Product_	CA Market Responsiveness	EO Innovation	EO Proactiveness	EO Risk Taking_	SMEs Performance
CADP1	0.794	0.625	0.713	0.601	0.586	0.651
CADP2	0.739	0.644	0.557	0.647	0.548	0.588
CADP3	0.856	0.704	0.701	0.703	0.676	0.731
CADP4	0.666	0.493	0.536	0.468	0.477	0.564
CADP5	0.816	0.749	0.656	0.659	0.593	0.693
CAMR1	0.594	0.754	0.563	0.543	0.604	0.582
CAMR2	0.594	0.755	0.517	0.632	0.550	0.597
CAMR3	0.619	0.789	0.560	0.545	0.553	0.509
CAMR4	0.743	0.842	0.619	0.652	0.642	0.652
CAMR5	0.714	0.798	0.609	0.696	0.670	0.690
EOI1	0.722	0.602	0.813	0.661	0.601	0.703
EOI2	0.582	0.509	0.747	0.555	0.587	0.556
EOI3	0.633	0.627	0.779	0.551	0.541	0.477
EOI4	0.625	0.553	0.805	0.495	0.618	0.515
EOP1	0.572	0.548	0.544	0.733	0.565	0.673
EOP2	0.655	0.678	0.489	0.781	0.572	0.692
EOP3	0.631	0.638	0.586	0.796	0.649	0.546
EOP4	0.579	0.525	0.602	0.731	0.515	0.523
EOP5	0.506	0.496	0.474	0.661	0.499	0.545
EORT1	0.573	0.603	0.545	0.602	0.742	0.612
EORT2	0.626	0.633	0.554	0.654	0.742	0.624

EORT3	0.528	0.546	0.561	0.522	0.781	0.494
EORT4	0.500	0.516	0.589	0.470	0.747	0.447
SMES4	0.724	0.644	0.602	0.684	0.584	0.817
SMESP1	0.650	0.613	0.554	0.673	0.639	0.869
SMESP2	0.673	0.636	0.632	0.686	0.639	0.823
SMESP3	0.732	0.687	0.618	0.648	0.584	0.825

After the lower order measurement assessment, higher order measurement assessment was done (Table 5 and 6). The results also showed that validity and reliability of all measurements were held, which were shown by item outer loadings > 0.5, AVE > 0.5, and reliability > 0.7.

Table 5. Higher Order Convergent Validity and Reliability Assessment

Construct	Item	Outer loadings	Cronbach's Alpha	Rho-A	Composite Reliability	AVE	FIV
EO	EOI	0.902	0.909	0.911	0.956	0.917	2,602
	EOP	0.913					2,701
	EORT	0.915					2,900
CA	CADP	0.960	0.896	0.897	0.935	0.828	3,270
	CAMR	0.955					3,270
SMEsP	SMESP1	0.869	0.854	0.853	0.901	0.695	2,374
	SMESP2	0.824					1,869
	SMESP3	0.826					1,911
	SMES4	0.815					1,813

Table 6 presents discriminant validity was held, and again it was assessed through cross loadings (Table 4). The results showed that discriminant validity of all constructs are good.

Table 6. Higher Order Discriminant Validity Assessment

Item	Competitive Advantage	Entrepreneurial Orientation	SMEs Performance
CA Differentiated Product_	0.960	0.866	0.835
CA Market Responsiveness	0.955	0.837	0.775
EO Innovation	0.810	0.902	0.723
EO Proactiveness	0.826	0.913	0.808
EO Risk Taking_	0.791	0.915	0.733
SMES4	0.715	0.686	0.815
SMESP1	0.660	0.685	0.869
SMESP2	0.684	0.718	0.824
SMESP3	0.742	0.679	0.826

The assessment of structural model was done after the measurement model assessment showed good results. Table 7 presents that all hypotheses were supported, since the p-values < 0.05. Hence, EO is a significant predictor of SMEs performance. The research identifies that EO, encompassing proactive behavior, innovation, and risk-taking, significantly enhances SME performance directly. Moreover, CA significantly influences performance. CA is a significant mediator of competitive advantage and performance. In this relationship, EO positively influences CA, which in turn contributes to SME performance by offering unique products and effective market strategies. CA plays a crucial role as a distinct factor that enhances business

outcomes alongside EO. This dual impact suggests that improving both EO and CA separately is crucial for optimizing SME performance.

Table 7. Hypothesis Testing Results

Hypothesis	β	Sample Mean	St Deviation	t-statistics	p-values	Remarks
H1: EO → SMEsP	0.393	0.390	0.110	3,568	0.000	Supported
H2: EO → CA	0.890	0.887	0.028	32,258	0.000	Supported
H3: CA → SMEsP	0.492	0.495	0.102	4,842	0.000	Supported
Indirect Effect						
EO → CA → SMEsP	0.437	0.439	0.090	4,847	0.000	Supported

Firstly, each dimension of EO Innovativeness, Proactivity, and Risk-Taking significantly contributes to SME success. Innovativeness fosters creativity and responsiveness to market demands, while Proactivity ensures SMEs stay ahead by seizing opportunities and forming strategic alliances. Risk-Taking, managed strategically, opens new growth avenues through market expansion and innovative marketing approaches. These dimensions collectively empower SMEs to adapt, innovate, and thrive in competitive markets, driving long-term performance and resilience. Secondly, enhancing Competitive Advantage (CA) through Differentiated Products and Market Responsiveness is crucial. Developing unique offerings that resonate with customers and command premium pricing strengthens differentiation. Efficient production processes and ongoing customer feedback integration maintain product quality and relevance. Responsive marketing and dynamic pricing strategies ensure agility and competitiveness, while robust customer service enhances satisfaction and loyalty. By prioritizing these aspects of CA, SMEs can achieve sustained growth, higher market share, and improved overall performance in dynamic business environments. Secondly, enhancing Competitive Advantage (CA) through Differentiated Products and Market Responsiveness is crucial. Developing unique offerings that resonate with customers and command premium pricing strengthens differentiation. Efficient production processes and ongoing customer feedback integration maintain product quality and relevance. Responsive marketing and dynamic pricing strategies ensure agility and competitiveness, while robust customer service enhances satisfaction and loyalty. By prioritizing these aspects of CA, SMEs can achieve sustained growth, higher market share, and improved overall performance in dynamic business environments.

CONCLUSION AND RECOMMENDATION

This study investigates the relationship between Entrepreneurial Orientation (EO), Competitive Advantage (CA), and SME performance. The results identify that EO, encompassing proactive behavior, innovation, and risk-taking, significantly enhances SME performance directly. Additionally, EO positively influences CA, which in turn contributes independently to SME performance by offering unique products and effective market strategies. Furthermore, CA significantly mediates the relationship between EO and SME performance. Hence, it plays a crucial role as a distinct factor that enhances business outcomes alongside EO. This dual impact

suggests that improving both EO and CA are very crucial for optimizing SME performance. By enhancing EO, SME owners can cultivate a competitive edge in the marketplace. Simultaneously, focusing on improving CA ensures strategic differentiation and enhanced market positioning. These findings underscore the strategic importance of balancing entrepreneurial orientation with building competitive advantage to achieve sustained growth and success in SMEs.

Managerial Implication

The study depicts how Entrepreneurial Orientation (EO) and Competitive Advantage (CA) significantly impact SME performance. EO, encompassing innovation, proactivity, and risk-taking, forms a crucial foundation for SME success in competitive markets. Cultivating these traits enables businesses to continuously innovate, adapt swiftly to market changes, and capitalize on growth opportunities. For entrepreneurs, fostering a culture that values EO is essential for sustained business growth and resilience. Moreover, integrating EO with effective Competitive Advantage strategies, such as strong product differentiation and responsive market approaches, emerges as a strategic pathway to enhancing performance. By maintaining a robust innovation pipeline and agile market strategies, SMEs can meet evolving customer demands and effectively compete. Safeguarding unique product features through intellectual property protections ensures sustained market leadership and customer loyalty. Practical steps like promoting cross- functional collaborations, leveraging technology for operational efficiency, and investing in market intelligence further empower SMEs to navigate complexities and achieve long-term success in today's competitive landscape.

Limitation and Future Studies

While this research was carefully conducted there are several limitations to consider. Firstly, the study's small sample size, due to time constraints during data collection, may restrict the generalizability of its findings to a broader population of SMEs. Secondly, the research focused exclusively on Entrepreneurial Orientation as an independent variable and Competitive Advantage as a mediating variable, omitting consideration of a wider range of influencing factors examined in other studies. Additionally, the study's exclusive focus on SMEs raises questions about whether its conclusions can be applied to larger firms. Future research should use larger sample sizes to improve generalizability and explore a broader set of variables, including economic conditions, e-commerce impact, and industry type, to comprehensively understand factors influencing SME performance. Incorporating larger firms in studies can assess applicability across business sizes. Evaluating economic conditions can reveal macroeconomic influences, while e-commerce analysis can highlight digital platform impacts. Industry-specific studies offer insights into unique SME challenges and opportunities. Combining objective and self-report measures may enhance result reliability.

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